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SUBJECT: LATEST IAEA PROPOSAL FRUSTRATES BUDGET HAWKS

REF: STATE 57105

Classified By: Ambassador Greg Schulte for reasons 1.4 b/d

¶1. (SBU) Summary: IAEA budget hawks (UK, Germany, France, et. al.) are frustrated and annoyed that the IAEA Secretariat has not submitted a revised budget based on Zero Real Growth (ZRG). To their dismay, Board Vice Chair Feruta circulated a third budget proposal June 5 featuring a 12.7 percent increase for 2010. The new proposal - while too high from a U.S. perspective - positively reflects U.S. priorities and can be used as a basis for negotiation. G-77 representatives are also open to the new proposal, though they continue to reject funding for Nuclear Security. China, Russia and Japan are heavy hitters who support a budget increase privately, but keep mum publicly. Nordic states, on the other hand, are increasingly vocal in their support. The Board of Governors' leadership remains optimistic about bringing Member States to a consensus by July, an unlikely but not impossible scenario. It will be difficult to persuade the budget hawks without increasing the pressure through G8 fora and in capitals, but at least it is now clear to all involved that the majority of Member States support a budget increase. End Summary.

Third Budget Proposal Released

¶2. (SBU) The third iteration of the 2010-2011 IAEA budget proposal was released June 5. The first year of the proposed increase, 2010, envisions a 12.7 percent increase in the regular budget (7 percent for programs, 2.9 for capital investment and a 2.9 percent price adjustment). Like its predecessor, this third version stretches proposed increases over four years, but IAEA officials are quick to point out that Member States have authority only to approve a budget for 2010 during this year's General Conference (making out-year projections "indicative" but not binding). Several Member States - including the U.S. - have made it clear they will resist any agreement that locks them into a budget increase beyond 2010-2011.

¶3. (SBU) "Bootleg" versions of the document had surfaced several days earlier. It prompted an intense discussion at a May 29 meeting of the 16-member Geneva Group of major donors, where most participants expressed their frustration with the Secretariat and repeated their calls for a zero growth budget. The tone of the meeting deteriorated, with Italy threatening to renege on its commitments to the Technical Cooperation Fund and Switzerland affecting contentment over a deadlock that could force the Agency into a situation

comparable to a U.S. continuing resolution. Some Geneva Group states implicated the U.S. in "splitting" the Group and allowing the G-77 to "lay a trap" that would lead to increases for Technical Cooperation. The U.S. was alone with this group in expressing support for the latest budget proposal as a basis for negotiations.

¶4. (SBU) On June 4, immediately prior to the release of the latest proposal, the UK and eight other large donor states circulated a letter to Board Vice Chair Cornel Feruta (the Romanian Ambassador in charge of budget negotiations), asking that he submit a new budget proposal based on zero growth. The letter also asks for a 10 percent cut in overhead and alternative funding for capital investment (such as borrowing). The letter negates G-77 calls for a direct and proportional link between regular budget increases and future growth in the Technical Cooperation Fund (TCF).

¶5. (SBU) Notwithstanding the UK's hardline approach to the budget, Ambassador Schulte and UK Ambassador Simon Smith co-chaired an ambassadors-level meeting of the Geneva Group June 5 to discuss the third budget proposal. Board Vice Chair Cornel Feruta led the meeting by announcing, "We will have a budget!" - perhaps as early as July. He cited increasing momentum in the process and described the latest budget proposal as a good basis for developing an acceptable compromise. IAEA Deputy Director General David Waller also attended and outlined 12.7 Million Euros in savings over four years that would be stripped from salaries, travel, consultants and other direct costs. The Japanese representative mentioned that an additional 3 Million Euros for the Japanese plutonium fabrication facility (JMOX) could be delayed to 2012. Several participants spoke in favor of borrowing to save additional cash outlays by Member States (septel). The tone was more constructive than the previous Geneva Group meeting, due to positive statements by Ambassadors Feruta and Schulte.

G-77 Lackadaisical

¶6. (C) According to Romanian Second Secretary Dan Necalaescu, G-77 representatives were "happy" about the latest proposal. Less positively, the G-77 has been slow to elucidate its priorities beyond calls for an increase in the three Major Programs that support development activities and nuclear power. Nor is the G-77 in any rush to approve a budget. As Argentine Ambassador Eugenio Curia (current G-77 chairman) told Ambassador Schulte May 29, "September is fine." Curia went on to express his interest in "exploring concepts" before discussing numbers. Ambassador encouraged Curia to consider the damage done by dragging budget talks on for months and asked him to reserve conceptual discussions for the Future of the Agency process. Curia went on to dismiss the Nuclear Security program as Director Anita Nilsson's "monster," and claimed that NS had "taken Safety hostage." (Note: Despite this public line, Necalaescu told Msnoff that the G-77 had privately communicated its willingness to accept a 100 percent increase - 1.1 Million Euro - in regular budget funding for Nuclear Security. This meager offer does not go as far as the latest budget proposal, which awards Nuclear Security close to a 300 percent increase from its inadequate base. End note.)

Small but Vocal

¶7. (C) More positively, Nordic states have become increasingly active in their support of the budget. In a May 28 meeting at UNVIE, Finnish Ambassador Kirsti Kauppi surprised her Nordic colleagues by announcing that Finland had supported a budget increase all along - including the Secretariat's bold, initial request for a 24 percent increase. The Norwegian Ambassador, for his part, joined Ambassador Schulte June 3 in defending a budget increase before an audience of hostile WEOG (Western Europeans and Others group) colleagues. Encouraged by his counterparts' activism, Swedish Ambassador Hans Lundborg told DCM he had

gone back to Stockholm with a strong recommendation to support a budget increase. (In general, the Swedes are amplifying their profile as they anticipate taking on the EU presidency in July.)

Big but Quiet

18. (C) In contrast to the activist Nordics, some of the biggest players in the field are keeping quiet. China and India have both avoided endorsing an increase, though India is thought to be in favor, and Chinese Ambassador Tang told Ambassador Schulte privately that he could support a "reasonable" increase but without taking a leadership role. Russia has become more open of late, with Counselor Sergey Khalizov admitting privately that Russia would like a 6 - 7 percent increase. When asked if Russia could be more supportive of U.S. efforts to push the Europeans toward flexibility, Khalizov said, "No need. Life itself will push them to a more flexible position." Russian Ambassador Zmeyerovsky was even more forceful, telling Ambassador Schulte June 5 that he could not understand Berlin's refusal to acknowledge the IAEA's resource needs.

19. (C) Japanese diplomats are also quiet about the budget, though they lose no opportunity to remind Msnooffs that they regret the U.S.-inspired "split" in the Geneva Group. Second Secretary Shota Kamishima told Msnoff that Japan was in a position to fund an increase in both the regular budget and the Technical Cooperation Fund, but felt very uncomfortable expressing the view before his traditional, zero growth allies in the Geneva Group. Kamishima mourned, "We are quiet, and now we have to be even quieter than normal." He asserted that Japan's budget position was a result of principled support for U.S. goals and was unrelated to Japan's interest in electing Yukiya Amano as the next Director General.

Comment - Gathering Momentum

10. (SBU) It is now clear that the majority of Member States favor an increase over inflation in the IAEA budget, even if they differ on priorities or refrain from voicing their positions. Budget negotiations have gone well under Ambassador Feruta, and he is clearly confident about Member States' ability to come to agreement earlier rather than later. His motivated leadership reflects not only his desire to go on vacation in July, but also the increasing sense that consensus is within reach. The greatest threat to consensus is the entrenched position of the budget hawks led by Germany, the UK, and France. Increasing our pressure on these states through G8 fora and in capitals (per reftel) is the only tool available for nudging them out of their zero growth trench. The upcoming Global Initiative to Combat Nuclear Terrorism (GICNT) initiative June 15-18 in the Hague provides another opportunity to press our views on the Nuclear Security budget. Until the budget hawks see themselves facing political and moral isolation, they will not agree to a budget increase.

SCHULTE